UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MARGARET C. RICHARDSON TRUSTEE OF THE SURVIVORS TRUST DATED 6/12/84 FOR THE BENEFIT OF THE H&M RICHARDSON REVOCABLE TRUST, derivatively on behalf of HALYARD HEALTH, INC., Plaintiff, v. ROBERT E. ABERNATHY, STEVEN E. VOSKUIL, GARY D. BLACKFORD, JOHN P. BYRNES, RONALD W. DOLLENS, HEIDI K. FIELDS, WILLIAM A. HAWKINS, PATRICK J. O'LEARY, MARIA SAINZ and JULIE SHIMER, Defendants, and HALYARD HEALTH, INC., Nominal Defendant.	Civil Action No. 16-CV-6296 **JURY TRIAL DEMANDED**

VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT

1. Plaintiff Margaret C. Richardson Trustee of the Survivors Trust Dated 6/12/84 for the benefit of the H&M Richardson Revocable Trust ("Plaintiff"), by and through her undersigned attorneys, hereby submits this Verified Shareholder Derivative Complaint (the "Complaint") for the benefit of nominal defendant Halyard Health, Inc. ("Halyard" or the "Company") against certain current and/or former members of its Board of Directors (the "Board") and executive officers, seeking to remedy defendants' breaches of fiduciary duties and unjust enrichment from 2014 through the present (the "Relevant Period").

NATURE OF THE ACTION

2. According to its public filings with the United States Securities and Exchange Commission (the "SEC"), Halyard is a medical technology company focused on preventing infection, eliminating pain and speeding recovery for healthcare providers and their patients. The Company operates through two segments, Surgical and Infection Prevention (S&IP), and Medical Devices. Halyard markets its products directly to hospitals and other healthcare providers, as well as through third-party distribution channels.

3. Prior to October 2014, Halyard was the Health Care operating segment of Kimberly-Clark Corporation ("Kimberly-Clark"), a manufacturer of personal care, consumer tissue, and professional products. Kimberly-Clark's common stock trades on the New York Stock Exchange ("NYSE") under the ticker symbol "KMB."

4. On October 7, 2014, Kimberly-Clark announced the details for the completion of the spin-off of its Health Care segment as Halyard Health, Inc. (the "Spin-off"), advising its shareholders that they would receive one share of Halyard common stock for every eight shares of Kimberly-Clark common stock they held as of the close of trading on October 23, 2014, the record date for the Spin-off.

5. On or about October 21, 2014, Halyard stock began trading on the NYSE under the ticker symbol "HYH." Under the terms of the distribution agreement Halyard entered into with Kimberly-Clark prior to the Spin-off, legal proceedings, claims and other liabilities that are primarily related to the Company's business are Halyard's responsibility, and the Company is obligated to indemnify and hold Kimberly-Clark harmless for such matters ("Indemnification Obligation").

6. In late 2013, an outbreak of the Ebola virus began in Guinea, subsequently spreading to Liberia, Sierra Leone, and other West African nations. In August 2014, after meeting with health ministers from eleven countries, the World Health Organization ("WHO") designated the outbreak as a Public Health Emergency of International Concern, a rarely-used designation that invokes legal measures on disease prevention, surveillance, control, and response by 194 signatory countries. On September 30, 2014, the United States Centers for Disease Control and Prevention ("CDC") declared the first case of Ebola virus located in the United States.

7. As awareness of the Ebola epidemic grew, demand surged for the personal protective equipment ("PPE") – *i.e.*, eye shields, face masks and disposable gowns – made by Kimberly-Clark's Health Care segment, and subsequently by Halyard, including the Company's MICROCOOL surgical gowns.

8. At relevant times, Defendants (defined herein) flouted industry and other applicable standards, and made or caused the Company to make materially false and misleading statements regarding the Company's business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements, and/or failed to disclose, that: (i) under their direction and on their watch, the Company's MICROCOOL surgical gowns consistently failed effectiveness tests and failed to meet industry standards; (ii) Kimberly-Clark and Halyard (under Defendants' direction and on their watch) had knowingly provided defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis; and (iii) as a result of the foregoing, Defendants' public statements were materially false and misleading at all relevant times.

9. Shortly after the Spin-off, Kimberly-Clark, became the subject of a lawsuit

regarding the MICROCOOL surgical gowns, with Halyard later being added as a defendant The lawsuit, captioned *Prime Healthcare Centinela, LLC, et al. v. Kimberly-Clark Corporation, et al.*, (f/k/a *Shahinian, et al. v. Kimberly-Clark Corporation, et al*.) No. 2:14-cv-08390-DMG-SH (C.D. Cal.) (the "Prime Healthcare Litigation"), was filed on October 29, 2014. In that case, the plaintiff brought a putative nationwide class action asserting claims for common law fraud (affirmative misrepresentation and fraudulent concealment), negligent misrepresentation, and violation of California's Unfair Competition Law in connection with Halyard's marketing and sale of MicroCool surgical gowns. On February 6, 2015, defendants in that case moved to dismiss the complaint on multiple grounds. On July 10, 2015, the Court issued an order concerning the motion to dismiss, dismissing the negligent misrepresentation claim, but permitting the remaining claims to stand and proceed to discovery. On December 11, 2015, the plaintiff in that case filed a second amended complaint that added additional plaintiffs residing in California, Texas and Rhode Island, named Halyard as an additional defendant, and extended the timeframe for the lawsuit to include products sold after the Spin-off through December 2015.

10. In June 2015, Halyard was served with a subpoena from the U.S. Department of Veterans Affairs, Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other Company surgical gowns, and, in July 2015, also became aware that the subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government, were both related to a United States Department of Justice ("DOJ") investigation.

11. Due to Defendants' breaches of fiduciary duty and other misconduct, Halyard now faces the very real possibility of becoming subject to litigation relating to this DOJ investigation, by either governmental agencies or private parties. In addition, if a claim is asserted against Kimberly-Clark relating to MicroCool gowns or other Company surgical gowns, it is likely that such a claim would give rise to an Indemnification Obligation under the distribution agreement with Kimberly-Clark. Defendants claim that they are "cooperating" with the VA OIG's request and the DOJ investigation.

12. Matters continued to worsen for the Company when on May 1, 2016, the television program *60 Minutes* reported that Kimberly-Clark and Halyard had knowingly provided defective surgical gowns to U.S. workers at the height of the Ebola crisis. A Company insider claimed that Halyard's MICROCOOL surgical gowns were prone to leaks, and that they did not consistently meet the industry safety standards for the treatment of Ebola, but that Kimberly-Clark and Halyard had nonetheless "aggressively" marketed the MICROCOOL gowns to hospitals and other healthcare providers during the epidemic.

13. On this news, Halyard stock fell $1.21 per share, or 4.3%, to close at $26.95 per share on May 2, 2016.

14. Accordingly, as a result of Defendants' actions, the Company has suffered serious damages, including (but not limited to) being the subject of the Prime Healthcare Litigation and the VA OIG subpoena, and may become the subject of further investigations and litigation being conducted by governmental and non-governmental entities (including, but not limited to, the DOJ). In addition, and as a result of

Defendants' action, the Company has suffered the severe loss of reputation and industry standing.

JURISDICTION AND VENUE

15. This Court has jurisdiction over this action pursuant to 28 U.S.C. § 1331 in that this Complaint states a federal question regarding the VA OIG subpoena and the DOJ investigation. This Court also has supplemental jurisdiction over the state law claims asserted herein pursuant to 28 U.S.C. §1367(a). This action is not a collusive one to confer jurisdiction on a court of the United States which it would not otherwise have.

16. Venue is proper in this district because a portion of the transactions and wrongs complained of herein, including the Defendants' participation in the wrongful acts detailed herein, have occurred in this district. In addition, the Company's securities trade on the NYSE, which is located in this District, and Defendants have conducted substantial business in this district, and have derived substantial compensation from their activities in this district.

THE PARTIES

17. Plaintiff is a current shareholder of Halyard, and has continuously held Halyard stock since the Spin-off in October 2014. Moreover, continuously since 2004, Plaintiff has held (and continues to hold) Kimberly-Clark stock.

18. Nominal defendant Halyard is a Delaware corporation, with its principal executive offices located at 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004.

19. Defendant Robert E. Abernathy ("Abernathy") has served as Halyard's Chief Executive Officer ("CEO") and Chairman of the Board since October 31, 2014.

Abernathy served as President, Global Health Care of Kimberly-Clark from June 2014 until the Spin-off from Kimberly-Clark. Prior to that he served as an Executive Vice President of Kimberly-Clark from November 2013 to June 2014, and prior to that served as Kimberly-Clark's Group President — Europe, Global Nonwovens, and Continuous Improvement & Sustainability from 2012 to November 2013. Abernathy had overall responsibility for Kimberly-Clark's Health Care business from 1997 to early 2004. His past responsibilities at Kimberly-Clark have also included overseeing its businesses in Asia, Latin America, Eastern Europe, the Middle East and Africa, as well as operations and major project management in North America. He was appointed Vice President — North American Diaper Operations in 1992; Managing Director of Kimberly-Clark Australia Pty. Limited in 1994; Group President — Developing and Emerging Markets in 2004; and Group President — North Atlantic Consumer Products in 2008.

20. Defendant Steven E. Voskuil ("Voskuil") has served as Halyard's Chief Financial Officer ("CFO") since October 31, 2014. Previously, Voskuil led Kimberly-Clark's Global Finance Talent Development, as well as Finance and Strategy for Kimberly-Clark International, the division of Kimberly-Clark focused on markets outside of North America. Prior to this, he served as Vice President and Treasurer for Kimberly-Clark Corporation, and Finance Director for Europe, Middle East and Africa. Voskuil joined Kimberly-Clark in 1992, and assumed roles of increasing responsibility in business analysis, strategic analysis, and treasury for the Company's businesses worldwide.

21. Defendant Gary D. Blackford ("Blackford") has served as a director of the Company since October 2014. In addition, defendant Blackford serves as a member of

the Board's Audit Committee (the "Audit Committee").

22. Defendant John P. Byrnes ("Byrnes") has served as a director of the Company since October 2014. In addition, defendant Byrnes serves as a member of the Board's Compliance Committee (the "Compliance Committee").

23. Defendant Ronald W. Dollens ("Dollens") has served as a director of the Company since October 2014, and currently serves as the Lead Director of the Board.

24. Defendant Heidi K. Fields ("Fields") has served as a director of the Company since October 2014. In addition, defendant Fields serves as the Chairperson of the Audit Committee.

25. Defendant William A. Hawkins ("Hawkins") has served as a director of the Company since December 2015. In addition, defendant Hawkins serves as Chair of the Compliance Committee.

26. Defendant Patrick J. O'Leary ("O'Leary") has served as a director of the Company since October 2014. In addition, defendant O'Leary serves as a member of the Audit Committee.

27. Defendant Maria Sainz ("Sainz") has served as a director of the Company since February 1, 2015. In addition, defendant Sainz serves as a member of the Compliance Committee.

28. Defendant Julie Shimer ("Shimer") has served as a director of the Company since October 2014. In addition, defendant Shimer serves as a member of the Compliance Committee.

29. Collectively, defendants Abernathy, Voskuil, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer shall be referred to herein as "Defendants."

30. Collectively, defendants Blackford, Fields and O'Leary shall be referred to as the "Audit Committee Defendants."

31. Collectively, defendants Byrnes, Sainz and Shimer shall be referred to as the "Compliance Committee Defendants."

DEFENDANTS' DUTIES

32. By reason of their positions as officers, directors, and/or fiduciaries of Halyard, and because of their ability to control the business and corporate affairs of Halyard and its subsidiaries, Defendants owed Halyard and its shareholders fiduciary obligations of good faith, loyalty, and candor, and were and are required to use their utmost ability to control and manage Halyard and its subsidiaries in a fair, just, honest, and equitable manner. Defendants were and are required to act in furtherance of the best interests of Halyard and its shareholders so as to benefit all shareholders equally, and not in furtherance of their personal interests or benefits. Each director and officer of the Company owes to Halyard and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the business and corporate affairs of the Company and its subsidiaries, and in the use and preservation of its property and assets, as well as owing the highest obligations of fair dealing to Halyard and its shareholders.

33. Defendants, because of their positions of control and authority as directors and/or officers of Halyard, were able to and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein. Because of their advisory, executive, managerial, and directorial positions with Halyard, each of the Defendants had knowledge of material non-public information regarding the Company.

34. To discharge their duties, the officers and directors of Halyard were

required to exercise reasonable and prudent supervision over the management, policies, practices and controls of the Company. By virtue of such duties, the officers and directors of Halyard were required to, among other things:

a. Exercise good faith to ensure that the business and corporate affairs of the Company were conducted in an efficient, business-like manner so as to make it possible to provide the highest quality performance of their business;

b. Exercise good faith to ensure that the Company was operated in a diligent, honest and prudent manner, and complied with all applicable federal and state laws, rules, regulations and requirements, and fulfilled all contractual obligations, including acting only within the scope of its legal authority; and

c. When put on notice of problems being experienced with the Company's business practices and operations, to exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence.

35. The Company's Code of Conduct and Ethics (the "Code") applies to each of the Defendants. The Code sets forth, in relevant part:

> You should never compromise product quality or safety.
> • Halyard Health's reputation for product safety and quality is one of our most valuable assets. We are committed to providing products that are safe and please our customers.
> • The health, safety and well-being of healthcare professionals and patients are our primary concern. We will meet or exceed legal and regulatory requirements and industry standards for product safety and quality. We work every day to earn the trust of our healthcare professionals and patients through all our actions and decisions.

• We are committed to producing safe, high quality products across all of our brands. We maintain the trust of our customers by designing and manufacturing superior products, starting with the purchase of our raw ingredients and continuing until the finished product is used by the customer.
• Each one of us plays a role in providing our healthcare professionals and patients with the safe, high quality products they expect. Know the quality standards, policies, and procedures that apply to the products and activities at your location.
• Never do anything that could undermine the trust that our customers place in us or could compromise the quality or safety of our products.
• If you see something that could negatively affect the quality or safety of a Halyard Health product, speak up and report it immediately to your team leader or your facility, business unit or corporate quality/ product safety department.

* * *

Reading the Code is just a start. We expect everyone to act ethically, legally and in compliance with the Code of Conduct at all times. Doing What’s Right is the Halyard Health Way. Each of us is responsible for our own compliance with the Code, to report suspected violations, and to cooperate in the Company’s investigation of potential violations.

36. The Compliance Committee Defendants were required to act in accordance with the terms of the Compliance Committee Charter. The Compliance Committee Charter sets forth, in relevant part:

The Compliance Committee shall:

1. Provide oversight and monitoring of Compliance matters, provided that the Audit Committee shall have sole oversight over compliance programs relating to financial matters, including auditing, financial reporting, and disclosures to investors.
2. Provide oversight and monitoring of the following areas of the Corporation's Compliance program and receive periodic reports from management on such areas:
   - Code of Conduct
   - Conflicts of Interest
   - Consumer Protection
   - Ethics
   - Environment
   - Government Relations
   - Health and Safety
   - Interactions with Healthcare Professionals
   - Customs and Export Controls

- False Claims
- Foreign Corrupt Practices Act and Similar Anti-Bribery Laws
- Fraud and Abuse Laws including Anti-Kickback
- Government Reimbursement Programs, including Medicare
- Information Systems Security
- Intellectual Property
- Labor & Employment
- Physical Security
- Quality
- Recalls
- Regulatory including FDA
- Safety
- Sales of Products or Services to US or Foreign Governments, including entities owned by such governments
- Sunshine Act and Other Laws Relating to Reporting of and Transparency with Respect to Payments to Healthcare Professionals
- Transportation.

3. Provide oversight of the Corporation's sustainability, corporate social responsibility and corporate citizenship matters and receive periodic reports from management on such programs and their effectiveness.
4. Monitor the Corporation's efforts to implement programs, policies and procedures relating to Compliance matters, and the training of employees and others on such matters.
5. Review the results of compliance related audits conducted by the Corporation and by the FDA or other regulators.
6. Request or oversee the investigation of any significant instances or potential instances of noncompliance with laws or the Corporation's Compliance programs, policies or procedures; provided, however, that any instances or potential instances of financial noncompliance shall be directed to the Audit Committee for investigation.
7. Review on a regular basis litigation matters filed against the Corporation related to alleged violations of laws and regulations.
8. Review on a regular basis the Corporation's Compliance risk assessment plan.
9. At least annually, the Compliance Committee shall coordinate with the Audit Committee to discuss matters of mutual interest within the context of each Committee's respective areas of oversight.
10. Identify and investigate emerging Compliance issues and trends which may affect the Corporation.
11. Periodically review the Corporation's compliance oversight structure and the allocation of resources and responsibilities across the organization.
12. In consultation with the Governance Committee, conduct an annual evaluation of the performance and effectiveness of the Compliance Committee and report the results of that evaluation to the Board.

> 13. Have such other duties and oversight and monitoring responsibilities as may be assigned to the Compliance Committee, from time to time, by the Board and/or the Chairman of the Board.

37. Pursuant to the terms of the Audit Committee Charter, the Audit Committee Defendants were responsible for (among other things) oversight of regulatory matters and the Company's financial filings with the SEC, and legal matters that may have a material impact on the financial statements. The Audit Committee Charter sets forth, in part:

> The Audit Committee shall take appropriate actions to ensure a management environment for quality financial reporting, sound business risk practices, and ethical behavior.
>
> * * *
>
> Review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year. Review and discuss with management and the independent auditors any significant issues as to the adequacy of the Corporation's internal controls, the adequacy of disclosures about internal controls over financial reporting, and the independent auditors' report on the Corporation's effectiveness of internal controls.
>
> * * *
>
> Provide oversight of the Corporation's compliance programs relating to financial matters and receive periodic reports from management on compliance program effectiveness and significant issues relating to the following compliance areas: Accounting Controls, Anti-Fraud, Books and Records, Financial Statements, Public Disclosures, Taxes, and any other financial compliance areas not identified in the Compliance Committee's charter. At least annually, the Committee shall coordinate with the Compliance Committee to discuss matters of mutual interest within the context of each Committee's respective responsibilities.
>
> * * *
>
> Meet, at least annually, with management to discuss, as appropriate, significant accounting accruals, estimates and reserves; litigation matters; management's representations to the independent auditors; new or proposed regulatory accounting and reporting rules; any significant off-

> balance sheet transactions and variable interest entities; and any significant financial reporting issues or judgments disputed with the Corporation's independent auditors.
>
> Provide oversight of the Corporation's risk management program and receive periodic reports from management on risk assessments, the risk management process and issues related to the risks of managing the Corporation's business, including information technology, hedging, insurance, and tax matters.
>
> Review with the Corporation's general counsel legal matters that may have a material impact on the financial statements.

SUBSTANTIVE ALLEGATIONS

A. Background of the Company

38. Halyard provides health and healthcare supplies and solutions worldwide. The Company operates through two segments, Surgical and Infection Prevention ("S&IP"), and Medical Devices. Halyard markets its products directly to hospitals and other healthcare providers, as well as through third-party distribution channels. Prior to October 2014, Halyard was the Health Care operating segment of Kimberly-Clark, a manufacturer of personal care, consumer tissue, and professional products.

B. Pre-Spin-Off Allegations

39. On February 22, 2013, Kimberly-Clark filed its Annual Report for the quarter and year ended December 31, 2012 on Form 10-K with the SEC (the "2012 10-K"). In the 2012 10-K, with respect to its Health Care operating Segment, Kimberly-Clark stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

> For 2012, Kimberly-Clark reported net sales of $1.62 billion for its Health Care segment, compared to net sales of $1.61 billion for 2011, an increase of 1%.

40. On April 19, 2013, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended March 31, 2013 (the "Q1 2013 8-K"). For this quarter, Kimberly-Clark reported net sales of $397 million for its Health Care segment, compared to net sales of $405 million for the same period in the prior year, a decrease of 2%.

41. On May 2, 2013, Kimberly-Clark filed a Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 with the SEC (the "Q1 2013 10-Q"). The Q1 2013 10-Q reiterated the financial and operating results previously announced in the Q1 2013 8-K. In the Q1 2013 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

42. On July 22, 2013, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC announcing its financial and operating results for the quarter ended June 30, 2013 (the "Q2 2013 8-K"). For that quarter, Kimberly-Clark reported net sales of $401 million for its Health Care segment, compared to net sales of $411 million for the same period in the prior year, a decrease of 2.4%.

43. On August 2, 2013, Kimberly-Clark filed a Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 with the SEC (the "Q2 2013 10-Q"). The Q2 2013 10-Q reiterated the financial and operating results previously announced in the Q2 2013

8-K. In the Q2 2013 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

44. On October 22, 2013, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended September 30, 2013 (the "Q3 2013 8-K"). For that quarter, Kimberly-Clark reported net sales of $403 million for its Health Care segment, compared to net sales of $396 million for the same period in the prior year, an increase of 1.8%.

45. On November 1, 2013, Kimberly-Clark filed a Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 with the SEC (the "Q3 2013 10-Q"). The Q3 2013 10-Q reiterated the financial and operating results previously announced in the Q3 2013 8-K. In the Q3 2013 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

46. On November 14, 2013, Kimberly-Clark issued a press release entitled "Kimberly-Clark Pursuing Spin-Off Of Health Care Business." The press release advised Kimberly-Clark's investors that Kimberly-Clark's "board of directors has authorized management to pursue a potential tax-free spin-off of the company's health care

business", and that "[i]f the board approves a spin-off, a transaction would likely be completed by the end of the third quarter of 2014."

47. On January 24, 2014, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter and year ended December 31, 2013 (the "2013 8-K"). For 2013, Kimberly-Clark reported net sales of $1.618 billion for its Health Care segment, compared to net sales of $1.622 billion for 2012, a decrease of 0.2%.

48. On February 22, 2014, Kimberly-Clark filed its Annual Report for the quarter and year ended December 31, 2013 on Form 10-K with the SEC (the "2013 10-K"). The 2013 10-K reiterated the financial and operating results previously announced in the 2013 8-K. In the 2013 10-K, with respect to its Health Care operating Segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

49. In March 2014, WHO reported that Guinea's Ministry of Health had reported an outbreak of Ebola virus in four southeastern districts, and that suspected cases of Ebola in the neighboring countries of Sierra Leone and Liberia were under investigation.

50. On April 21, 2014, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended March 31, 2014 (the "Q1 2014 8-K"). For the quarter, Kimberly-Clark reported net sales of $397 million for its Health Care segment, compared to net

sales of $397 million for the same period in the prior year.

51. Later on April 21, 2014, Kimberly-Clark filed a Quarterly Report for the quarter ended March 31, 2014 on Form 10-Q with the SEC (the "Q1 2014 10-Q"). The Q1 2014 10-Q reiterated the financial and operating results previously announced in the Q1 2014 8-K. In the Q1 2014 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

52. On July 22, 2014, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended June 30, 2014 (the "Q2 2014 8-K"). For the quarter, Kimberly-Clark reported net sales of $397 million for its Health Care segment, compared to net sales of $401 million for the same period in the prior year, a decrease of 1%.

53. Later on July 22, 2014, Kimberly-Clark filed a Quarterly Report for the quarter ended June 30, 2014 on Form 10-Q with the SEC (the "Q2 2014 10-Q"). The Q2 2014 10-Q reiterated the financial and operating results previously announced in the Q2 2014 8-K. In the Q2 2014 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

54. On or around August 8, 2014, following an Emergency Committee meeting, WHO designated the Ebola virus outbreak as a Public Health Emergency of International Concern, a rarely used designation that invokes legal measures on disease prevention, surveillance, control, and response, by 194 signatory countries.

55. On August 14, 2014, Kimberly-Clark published a Pandemic Preparedness Customer Letter (the "Customer Letter"). In the Customer Letter, Kimberly-Clark stated, in part:

> Kimberly-Clark joins the world in the hope for the cessation of the spread of the virus and the discovery of a cure. While the transmission of the virus in West Africa has captured the attention of the world and increased anxiety about its potential to spread into North America, we want you to rest assured that Kimberly-Clark has activated its Pandemic Preparedness Plan which provides protocols for tracking the cadence of orders and monitoring supply of our critical Personal Protection Equipment products (PPE) including facial protection, exam gloves and protective apparel.

56. On September 30, 2014, the CDC declared the first case of Ebola virus in the United States.

57. On October 7, 2014, Kimberly-Clark announced the details for the completion of the Spin-off, advising its investors that they would receive one share of Halyard common stock for every eight shares of Kimberly-Clark common stock held as of the close of trading on October 23, 2014, the record date for the Spin-off. On or about October 21, 2014, Halyard stock began trading on the NYSE under the ticker symbol "HYH."

58. On October 21, 2014, Kimberly-Clark issued a press release and filed a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended September 30, 2014 (the "Kimberly-Clark Q3 2014 8-K"). For the quarter, Kimberly-Clark stated that the Health Care segment reported net sales of $392

million, compared to net sales of $403 million for the same period in the prior year, a decrease of 2.7%.

59. Later, on October 21, 2014, Kimberly-Clark filed a Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 with the SEC (the "Kimberly-Clark Q3 2014 10-Q"). The Kimberly-Clark Q3 2014 10-Q reiterated the financial and operating results previously announced in the Kimberly-Clark Q3 2014 8-K. In the Kimberly-Clark Q3 2014 10-Q, with respect to its Health Care segment, Kimberly-Clark also stated, in part:

> Health Care provides essentials that help restore patients to better health and improve the quality of patients' lives. This segment offers surgical and infection prevention products for the operating room, and a portfolio of innovative medical devices focused on pain management, respiratory and digestive health. This business is a global leader in education to prevent healthcare-associated infections.

C. Defendants' False and Misleading Statements

60. On October 21, 2014, Defendants caused Halyard to issue a press release and file a Current Report on Form 8-K with the SEC announcing the Company's financial and operating results for the quarter ended September 30, 2014 (the "Halyard Q3 2014 8-K"). For the quarter, Defendants reported net sales of $279.2 million for its Surgical and Infection Prevention segment, compared to net sales of $287.0 million for the same period in the prior year.[1]

61. On October 31, 2014, *Reuters* published an article entitled "Halyard Health poised to shine in debut on back of Ebola scare." The Reuters article stated, in

[1] As stated in Item 2.02 of this Form 8-k, the information concerning operational results and financial condition were to be used in connection with presentations to be made on and after October 21, 2014 to certain Kimberly-Clark common stockholders and certain other members of the investment community in anticipation of the spin-off of Halyard from Kimberly-Clark that was expected to occur on October 31, 2014.

part:

> Since Ebola was first diagnosed in the United States, demand has surged for the eye shields, face masks and disposable gowns made by Halyard Health Inc, which is set to make its market debut on Monday.
>
> * * *
>
> The Ebola outbreak—and fear of its spread in developed countries—is certain to spur growth in demand for Halyard's products in the near future.

62. Upon information and belief, at all relevant times, the Ebola Preparedness section of Halyard's website stated that the Company "want[ed] to proactively provide you with guidance on preparing for a pandemic as well as solutions for proper PPE," and included a link to the Halyard Personal Protection Solutions Guide (the "Personal Protection Guide"), a list of Halyard's PPE products. The Personal Protection Guide recommended Halyard's MICROCOOL Surgical Gowns as a solution that offered "AAMI Level 4 / Liquid Barrier Protection." By the AAMI Level 4 designation, Halyard represented that its MICROCOOL Surgical Gowns provided adequate protection for situations that entailed a high exposure risk in terms of "fluid amount," "fluid spray or splash" and "pressure on gown" per the guidelines established by the Association for the Advancement of Medical Instrumentation.

63. On November 20, 2014, Defendants caused Halyard to file a Quarterly Report on Form 10-Q with the SEC for the quarter ended September 30, 2014 (the "Halyard Q3 2014 10-Q"). The Halyard Q3 2014 10-Q reiterated the financial and operating results previously announced in the Halyard Q3 2014 8-K. In the Halyard Q3 2014 10-Q, Defendants also stated, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs, namely preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. We

> market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.

64. The Halyard Q3 2014 10-Q contained signed certifications by defendants Abernathy and Voskuil pursuant to the Sarbanes-Oxley Act of 2002 ("SOX Certifications"), stating that the Halyard Q3 2014 10-Q "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading." These SOX Certifications were substantially similar to those set forth, *infra*.

65. On March 4, 2015, Defendants caused Halyard to issue a press release and file a Current Report on Form 8-K with the SEC announcing its financial and operating results for the quarter and year ended December 31, 2014 (the "2014 8-K"). In the 2014 8-K, Halyard reported net sales of $1.14 billion for its Surgical and Infection Prevention segment, compared to net sales of $1.15 billion for 2013, a decrease of 2%.

66. On March 13, 2015, Defendants caused Halyard to file its Annual Report for the quarter and year ended December 31, 2014 on Form 10-K with the SEC (the "2014 10-K"). The 2014 10-K was signed by Defendants (other than defendant Hawkins), and reiterated the financial and operating results previously announced in the 2014 8-K. In the 2014 10-K, Defendants caused the Company to also state, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs, namely preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. We market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.
>
> * * *
>
> In our S&IP business, we are focused on maintaining our market position

> by providing innovative customer-preferred product enhancements, with a particular focus on the operating room. Leveraging customer insights and our vertically integrated manufacturing capabilities, we seek to continuously improve our product designs, specifications and features to deliver cost efficiencies while improving healthcare worker and patient protection.

67. The 2014 10-K contained SOX Certifications by defendants Abernathy and Voskuil, who stated:

> I, [Robert E. Abernathy/Steven E. Voskuil], certify that:
>
> 1. I have reviewed this annual report on Form 10-K of Halyard Health, Inc. (the "registrant");
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
>
> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
>
> a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

I, [Robert E. Abernathy, Chief Executive Officer of Halyard Health, Inc./ Steven E. Voskuil, Chief Financial Officer of Halyard Health, Inc.], certify that, to my knowledge:

(1) the Form 10-K, filed with the Securities and Exchange Commission on March 13, 2015 ("accompanied report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the accompanied report fairly presents, in all material respects, the financial condition and results of operations of Halyard Health, Inc.

68. On March 16, 2015, Defendants caused the Company to file with the SEC a Proxy Statement on Form DEF 14A (the "2015 Proxy). In the 2015 Proxy, Defendants

stated, in relevant part:

> Our governance structure and processes are based on a number of important governance documents including our Code of Conduct, Certificate of Incorporation, Corporate Bylaws, Corporate Governance Policies and our Board Committee Charters. These documents . . . guide the Board and our management in the execution of their responsibilities. Halyard Health believes that there is a direct connection between good corporate governance and long-term, sustained business success, and we believe it is important to uphold sound governance practices. As such, the Board reviews its governance practices and documents on an ongoing basis, considering changing regulatory requirements, governance trends, and issues raised by our stockholders. After careful evaluation, we may periodically make governance changes in view of these matters to maintain current good governance practices and promote shareholder value.
>
> We believe we are in compliance with all applicable corporate governance requirements of the NYSE, the SEC, the Sarbanes-Oxley Act of 2002 and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that have become effective as of the date of this proxy statement.

69. The 2015 Proxy made no mention whatsoever of the issues associated with the testing and distribution of the MICROCOOL surgical gowns (as set forth in greater detail herein).

70. On May 4, 2015, Defendants caused the Company to issue a press release and file a Current Report on Form 8-K with the SEC, announcing Halyard's financial and operating results for the quarter ended March 31, 2015 (the "Q1 2015 8-K"). For the quarter, Halyard reported net sales of $254.8 million for its Surgical and Infection Prevention segment, compared to net sales of $275.5 million for the same period in the prior year, a decrease of 7.5%.

71. On May 5, 2015, Defendants caused the Company to file a Quarterly Report on Form 10-Q with the SEC for the quarter ended March 31, 2015 (the "Q1 2015 10-Q"). The Q1 2015 10-Q reiterated the financial and operating results previously

announced in the Q1 2015 8-K. In the Q1 2015 10-Q, Defendants also stated, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs, namely preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. We market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.

72. The Q1 2015 10-Q contained signed SOX Certifications by defendants Abernathy and Voskuil, which were substantially similar to those set forth above.

73. On August 4, 2015, Defendants caused Halyard to issue a press release and file a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended June 30, 2015 (the "Q2 2015 8-K"). For the quarter, Halyard reported net sales of $255.3 million for its Surgical and Infection Prevention segment, compared to net sales of $285.5 million for the same period in the prior year, a decrease of 10.6%.

74. On August 12, 2015, Defendants caused Halyard to file a Quarterly Report on Form 10-Q with the SEC for the quarter ended June 30, 2015 (the "Q2 2015 10-Q"). The Q2 2015 10-Q reiterated the financial and operating results previously announced in the Q2 2015 8-K. In the Q2 2015 10-Q, Defendants also caused the Company to state, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs, namely preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. We market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.

75. The Q2 2015 10-Q contained SOX Certifications signed by defendants Abernathy and Voskuil, which were substantially similar to those set forth above.

76. On November 3, 2015, Defendants caused Halyard to issue a press release

and file a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter ended September 30, 2015 (the "Q3 2015 8-K"). For the quarter, Halyard reported net sales of $257.4 million for its Surgical and Infection Prevention segment, compared to net sales of $279.2 million for the same period in the prior year, a decrease of 7.8%.

77. On November 4, 2015, Defendants caused Halyard to file a Quarterly Report on Form 10-Q with the SEC for the quarter ended September 30, 2015 (the "Q3 2015 10-Q"). The Q3 2015 10-Q reiterated the financial and operating results previously announced in the Q3 2015 8-K. In the Q3 2015 10-Q, Defendants also caused the Company to state, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs, namely preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. We market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.

78. The Q3 2015 10-Q contained SOX Certifications signed by defendants Abernathy and Voskuil, which were substantially similar to those set forth above.

79. On February 29, 2016, Defendants caused Halyard to issue a press release and file a Current Report on Form 8-K with the SEC, announcing its financial and operating results for the quarter and year ended December 31, 2015 (the "2015 8-K"). For 2015, Halyard reported net sales of $1.03 billion for its Surgical and Infection Prevention segment, compared to net sales of $1.14 billion for 2014, a decrease of 9.6%.

80. Later, on February 29, 2016, Defendants caused Halyard to file its Annual Report on Form 10-K with the SEC for the quarter and year ended December 31, 2015 (the "2015 10-K"). The 2015 10-K was signed by Defendants, and reiterated the

financial and operating results previously announced in the 2015 8-K. In the 2015 10-K, Defendants also caused the Company to state, in part:

> Our products and solutions are designed to address some of today's most important healthcare needs; namely, preventing infections and reducing the use of narcotics while helping patients move from surgery to recovery. . . . We market and support the efficacy, safety, and economic benefit of our products with a significant body of clinical evidence.
>
> * * *
>
> In our S&IP business, we are focused on maintaining our market position by providing innovative customer-preferred product enhancements, with a particular focus on the operating room. Leveraging customer insights and our vertically integrated manufacturing capabilities, we seek to continuously improve our product designs, specifications and features to deliver cost efficiencies while improving healthcare worker and patient protection. We continuously refresh our surgical drape and gown portfolio to ensure that our products are aligned with the latest procedural and market trends. Our research team works with healthcare providers to develop and design exam glove and apparel portfolios that optimize comfort and fit and provide cost-effective infection prevention solutions for use throughout the hospital.

81. In addition, Defendants reported a legal proceeding—not specifically disclosed in previous SEC filings—and receipt of a subpoena concerning the marketing and sale of the Company's MICROCOOL surgical gowns. Defendants stated, in relevant part:

> We have an Indemnification Obligation for, and have assumed the defense of, the matter styled Shahinian, et al. v. Kimberly-Clark Corporation, et al., No. 2:14-cv-08390-DMG-SH (C.D. Cal.), filed on October 29, 2014. In that case, the plaintiff brings a putative nationwide class action asserting claims for common law fraud (affirmative misrepresentation and fraudulent concealment), negligent misrepresentation, and violation of California's Unfair Competition Law in connection with our marketing and sale of MicroCool surgical gowns. On February 6, 2015, we moved to dismiss the complaint on multiple grounds. On July 10, 2015, the Court issued an order on the motion to dismiss, dismissing the negligent misrepresentation claim but permitting the remaining claims to stand and proceed to discovery. On December 11, 2015, the plaintiff filed a second amended complaint that added additional plaintiffs in California, Texas

and Rhode Island, named Halyard Health, Inc. as an additional defendant, and extend the timeframe for the lawsuit to include products sold after the Spin-off through December 2015.

The parties are currently engaged in discovery. We intend to continue our vigorous defense of the matter.

In June 2015, we were served with a subpoena from the Department of Veterans Affairs Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other Company surgical gowns, and, in July 2015, also became aware that the subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government are related to a United States Department of Justice ("DOJ") investigation. We could be subject to litigation relating to this investigation, by either governmental agencies or private parties. If a claim is asserted against Kimberly-Clark relating to MicroCool gowns or other Company surgical gowns, we expect that such a claim would give rise to an Indemnification Obligation under the distribution agreement with Kimberly-Clark.

The Company is cooperating with the VA OIG's request and the DOJ investigation.

82. The 2015 10-K contained SOX Certifications signed by defendants Abernathy and Voskuil, which were substantially similar to those set forth above.

83. Defendants' statements in the above SEC filings (including in the 2015 Proxy) were materially false and misleading because Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operational and compliance policies. Specifically, Defendants made or caused to be made false and/or misleading statements and/or failed to disclose that under their direction and on their watch: (i) the Company's MICROCOOL surgical gowns consistently failed effectiveness tests and failed to meet industry standards; (ii) Kimberly-Clark and Halyard had knowingly provided defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis; and (iii) Defendants' public statements

regarding these MICROCOOL surgical gowns were materially false and misleading at all relevant times.

D. The Truth More Fully Emerges

84. On May 1, 2016, *60 Minutes* reported that Kimberly-Clark and Halyard had knowingly provided defective surgical gowns to U.S. workers at the height of the Ebola crisis. In an interview with Anderson Cooper, Bernard Vezeau, the global strategic marketing director for MICROCOOL and other products from 2012 to early 2015 (first at Kimberly-Clark, later at Halyard), stated that "the company went into high gear to sell the product" despite knowing that "the gowns were not consistently meeting industry standards."

> Anderson Cooper: These gowns were being recommended for use with Ebola.
>
> Bernard Vezeau: Aggressively being recommended.
>
> Anderson Cooper: In what way aggressively?
>
> Bernard Vezeau: We put a full court press to drive MICROCOOL sales. We told hospitals to stock up on our MICROCOOL products. We told 'em to have at least 8 to 12 weeks of product on hand. And that's when things became very difficult for me.
>
> * * *
>
> Bernard Vezeau: There is a test. And it's conducted in outside facilities.
>
> Anderson Cooper: So did your gowns consistently pass this test?
>
> Bernard Vezeau: No, they did not.
>
> * * *
>
> Anderson Cooper: Did you receive complaints from nurses, from surgeons at all?
>
> Bernard Vezeau: On these gowns?

Anderson Cooper: Yeah.

Bernard Vezeau: Oh, frequently. On a very frequent basis.

Anderson Cooper: What kinda complaints?

Bernard Vezeau: Oh, complaints of strike-through, sleeves falling off, ties falling off.

Anderson Cooper: Sleeves falling off.

Bernard Vezeau: Sleeves falling off. Sleeves falling off during a procedure.

Anderson Cooper: Were you at meetings where these problems were discussed?

Bernard Vezeau: Every time. We were the ones who were telling senior management the problems that we were having.

85. The *60 Minutes* report also described an independent test in December 2012, requested by Cardinal Health, Inc., a competitor of Kimberly-Clark and later of Halyard, in which 77% of the MICROCOOL gowns tested failed. The report also described February and March 2013 tests and laboratory reports, requested by Kimberly-Clark, in which some 21% of the MICROCOOL gowns tested failed, and in which some samples submitted "weren't even tested because the sleeves were so bad. The lab took [the sleeves] out of the package and they were so bad that they didn't even test [them] because it was obvious what was going to happen."

86. The *60 Minutes* report also referenced an internal Halyard PowerPoint presentation from November 2014 "that identifies a year-and-a-half 'gap in sleeve seams passing' the industry test," which Halyard's Chief Operating Officer, Chris Lowery, acknowledged having seen.

87. Halyard advised *60 Minutes* that "[b]y January 2015 . . . [the Company]

had new sealing machines in place to improve the quality of its sleeves," an acknowledgment that the manufacturing processes for the Company's MICROCOOL gowns had previously been inadequate.

88. As a result of these revelations, Halyard stock fell $1.21 per share, or 4.3%, to close at $26.95 per share on May 2, 2016.

89. As a result of Defendants' actions, the Company has suffered serious damages, which include (but are not limited to) becoming the subject of the Prime Healthcare Litigation, the VA OIG subpoena, and the loss of reputation and industry standing. Further, as a result of Defendants' actions, the Company may become the subject of future investigations and litigation by governmental and non-governmental entities, including (but not limited to) the DOJ.

DERIVATIVE AND DEMAND ALLEGATIONS

90. Plaintiff brings this action derivatively in the right and for the benefit of Halyard to redress the breaches of fiduciary duty and other violations of law by Defendants.

91. Plaintiff will adequately and fairly represent the interests of Halyard and its shareholders in enforcing and prosecuting its rights.

92. The Board currently consists of the following nine (9) directors: defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer. Plaintiff has not made any demand on the present Board to institute this action because such a demand would be a futile, wasteful and useless act, for the reasons that follow.

93. Defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins,

O'Leary, Sainz and Shimer (*i.e.*, the entire Board) served as directors of the Company during some or all of the wrongdoing alleged herein, and each faces a substantial likelihood of liability for their participation in the illicit acts alleged herein. Indeed, defendants Abernathy, Blackford, Byrnes, Dollens, Fields, O'Leary, and Shimer (a majority of the Board) have served as directors of the Company ever since Halyard became an independent, publicly traded company as a result of the Spin-off. Further, defendant Abernathy was employed by Kimberly-Clark prior to the Spin-off. The statements and actions regarding Halyard's illicit activity with respect to the MICROCOOL manufacture, testing, sale and/or distribution that defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer caused or allowed to be made repeatedly during the Relevant Period were an integral aspect of the Company's core operations. It was these very actions and statements that defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer caused or allowed the Company to make that subjected Halyard to the investigations and subpoenas (both current and future) described herein. This was in violation of (among other things) these Defendants' fiduciary duties of good faith and loyalty, as well as the Code. Thus, defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer (the entire Board) each faces a substantial likelihood of liability for their acts in connection with these actions and statements, rendering a demand upon them futile.

94. The principal professional occupation of defendant Abernathy is his employment with Halyard as its CEO, pursuant to which he receives substantial monetary compensation and other benefits. In addition, according to the Halyard Proxy Statement

filed with the SEC on Form DEF 14A on March 11, 2016 (the "2016 Proxy"), Defendants have admitted that defendant Abernathy is not independent. Thus, defendant Abernathy lacks independence from demonstrably interested directors, rendering him incapable of impartially considering a demand to commence and vigorously prosecute this action.

95. During the Relevant Period, defendants Blackford, Fields and O'Leary served as members of the Audit Committee. Pursuant to the Audit Committee Charter, the members of the Audit Committee were and are responsible for, *inter alia*, reviewing the Company's annual and quarterly financial reports, reviewing the integrity of the Company's internal controls, and ensuring that the Company was in compliance with legal and regulatory requirements (and the Code). Defendants Blackford, Fields and O'Leary breached their fiduciary duties of due care, loyalty, and good faith, because the Audit Committee, *inter alia*, allowed or permitted the Company to disseminate false and misleading statements in the Company's SEC filings and other disclosures, caused the above-discussed internal control failures, and caused or allowed the illicit activity described herein (which ultimately led the Company to become the subject of the investigations and subpoenas described herein). Therefore, defendants Blackford, Fields and O'Leary face a substantial likelihood of liability for their breach of fiduciary duties, and any demand upon them is futile.

96. During the Relevant Period, defendants Byrnes, Sainz and Shimer served as members of the Compliance Committee. Pursuant to the Compliance Committee Charter, the members of the Compliance Committee were and are responsible for, *inter alia*, overseeing and monitoring matters relating to the Company's compliance with

applicable laws and regulations throughout the world other than those relating to matters reserved for the Audit Committee, and overseeing matters relating to sustainability, corporate social responsibilities and corporate citizenship. Defendants Byrnes, Sainz and Shimer breached their fiduciary duties of due care, loyalty, and good faith, because the Compliance Committee, *inter alia*, allowed or permitted the Company to provide and/or sell defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis, and made no effort to remedy the situation long after it was known. These actions ultimately subjected the Company to the investigations and subpoenas described herein. Therefore, defendants Byrnes, Sainz and Shimer face a substantial likelihood of liability for their breaches of fiduciary duties, and any demand upon them is futile.

97. Defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer (the entire Board) each signed one or more of the false and misleading Forms 10-K and/or Forms 10-Q described herein. These SEC filings, signed and authorized by these Defendants, were false and misleading because they falsely stated and/or failed to disclose that under Defendants' direction and on their watch: (i) the Company's MICROCOOL surgical gowns consistently failed effectiveness tests and failed to meet industry standards; (ii) Kimberly-Clark and Halyard had knowingly provided defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis; and (iii) Defendants' public statements were materially false and misleading at all relevant times. As a result, defendants Abernathy, Blackford, Byrnes, Dollens, Fields, Hawkins, O'Leary, Sainz and Shimer (the entire Board) each face a substantial likelihood of liability for their actions described herein, rendering any demand upon them futile.

98. Due to a related party transaction, defendant Byrnes is not independent,

and is unable to consider a demand against the other members of the Board. The transaction at issue involved the Company's sales of products to Lincare Corporation ("Lincare"), where defendant Byrnes was the CEO (and a director) through February 2015. The Company's sales to Lincare prior to Mr. Byrnes' resignation were $438,408. Due to this business entanglement, defendant Byrnes would be unable to impartially consider a demand on the other members of the Board, rendering demand upon him futile and thus excused.

COUNT I
AGAINST ALL DEFENDANTS FOR BREACH OF FIDUCIARY DUTY

99. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

100. As alleged herein, each of the Defendants had a fiduciary duty to, among other things, ensure that the Company and its subsidiaries were operated in a lawful manner, and to exercise good faith to ensure that the Company's financial statements were prepared in accordance with GAAP, and, when put on notice of problems being experienced with the Company's and/or its subsidiaries' business practices and operations, should have exercised good faith in taking appropriate action to correct the misconduct and to prevent its recurrence.

101. The Defendants willfully ignored the obvious and pervasive problems being experienced with Halyard's internal controls practices and procedures, and failed to make a good faith effort to correct these problems or prevent their recurrence, which ultimately led to the Company becoming the subject of the investigations and subpoenas set forth herein.

102. Additionally, as alleged in detail herein, each of the Defendants (and

particularly the Audit Committee Defendants) had a duty to ensure that Halyard disseminated accurate, truthful and complete information to its shareholders.

103. The Defendants violated their fiduciary duties of care, loyalty, and good faith by causing or allowing the Company to engage in the illicit conduct described herein, and by causing or allowing the Company to disseminate to Halyard shareholders materially misleading and inaccurate information through, *inter alia*, Halyard's SEC filings and other public statements and disclosures as detailed herein, which failed to disclose that the Company was being operated in an unlawful and/or illicit manner. These actions could not have been a good faith exercise of prudent business judgment.

104. The Defendants' misconduct alleged herein further constituted an abuse of their ability to control and influence Halyard, for which they are legally responsible. In particular, the Defendants abused their positions of authority by causing or allowing Halyard to misrepresent material facts regarding the safety and efficacy of the MICROCOOL gowns, as well as the Company's business practices and operations, financial position and business prospects.

105. The Defendants had a duty to Halyard and its shareholders to prudently supervise, manage and control the operations, business and internal financial accounting and disclosure controls of Halyard and its subsidiaries.

106. The Defendants, by their actions and by engaging in the wrongdoing described herein, abandoned and abdicated their responsibilities and duties with regard to prudently managing the businesses of Halyard and its subsidiaries in a manner consistent with the duties imposed upon them by law. By committing the misconduct alleged herein, Defendants breached their duties of due care, diligence and candor in the

management and administration of Halyard's business and corporate affairs, and in the use and preservation of Halyard's assets.

107. During the course of the discharge of their duties, Defendants knew or recklessly disregarded the unreasonable risks and losses associated with their misconduct, yet the Defendants caused Halyard and/or its subsidiaries to engage in the illicit scheme complained of herein which they knew had an unreasonable risk of damage to Halyard, thus breaching their duties to the Company. As a result, the Defendants grossly mismanaged Halyard.

108. As a direct and proximate result of the Defendants' foregoing breaches of fiduciary duties, the Company has suffered significant damages, as alleged herein.

109. Plaintiff, on behalf of Halyard, has no adequate remedy at law.

COUNT II
AGAINST ALL DEFENDANTS FOR UNJUST ENRICHMENT

110. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

111. By their wrongful acts and omissions, the Defendants were unjustly enriched at the expense of and to the detriment of Halyard in the form of, *inter alia*¸ salaries, bonuses, stock options, and/or other forms of executive compensation.

112. Plaintiff, as a shareholder and representative of Halyard, seeks restitution from these Defendants, and each of them, and seeks an order of this Court disgorging all profits, benefits and other compensation obtained by these Defendants, and each of them, from their wrongful conduct and fiduciary breaches.

COUNT III
AGAINST THE DEFENDANTS FOR VIOLATIONS OF SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

113. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

114. Rule 14a-9, promulgated pursuant to §14(a) of the Securities Exchange Act of 1934, provides that no proxy statement shall contain "any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading." 17 C.F.R. §240.14a-9. Specifically, the 2015 Proxy violated §14(a) and Rule 14a-9 because it omitted material facts regarding the Company's operations and future prospects.

115. The 2015 Proxy was false and misleading because among other things, Defendants failed to disclose that under their direction and on their watch, the Company's MICROCOOL surgical gowns consistently failed effectiveness tests and failed to meet industry standards, and that Defendants had caused Halyard to sell and/or distribute defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis.

116. The 2015 Proxy was also false and misleading because Defendants falsely stated that they upheld "sound governance practices" and were in compliance with "all applicable corporate governance requirements of the NYSE, the SEC, the Sarbanes-Oxley Act of 2002, and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010". Due to Defendants' actions with respect to the testing, sale, marketing and/or distribution of the defective MICROCOOL surgical gowns (as described herein), Defendants failed to practice and/or uphold sound corporate governance practices during the Relevant Period.

117. Additionally, even though the 2015 Proxy sought shareholder votes for,

inter alia, director nominations and a long-term executive compensation program, it failed to disclose that the Company's internal controls were not sufficient, and that the Company, under these same officers' and directors' direction and on their watch, had caused Halyard to distribute, market and/or sell defective MICROCOOL surgical gowns to U.S. workers during the Ebola crisis (as set forth herein).

118. In the exercise of reasonable care, Defendants should have known that the statements contained in the 2015 Proxy were materially false and misleading, and/or that the 2015 Proxy omitted material information. The Company was damaged as a result of the Defendants' material misrepresentations and omissions in the 2015 Proxy.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment as follows:

A. Against all Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of Defendants' breaches of fiduciary duties;

B. Directing Halyard to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect the Company and its shareholders from a repeat of the damaging events described herein, including, but not limited to, putting forward for shareholder vote resolutions for amendments to the Company's By-Laws or Articles of Incorporation, and taking such other action as may be necessary to place before shareholders for a vote a proposal to strengthen the Board's supervision of business and corporate operations, and to develop and implement procedures for greater shareholder input into the policies and guidelines of the Board;

C. Awarding to Halyard restitution from Defendants, and each of them, and ordering disgorgement of all profits, benefits and other compensation improperly obtained by the Defendants;

D. Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

E. Granting such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: August 9, 2016

LAW OFFICES OF CURTIS V. TRINKO, LLP

By: s/Curtis V. Trinko
Curtis V. Trinko, Esq.
16 West 46th St, 7th Flr.
New York, New York 10036
Tel: (212) 490-9550
Fax: (212) 986-0158
ctrinko@trinko.com

Profy Promisloff & Ciarlanto, P.C.
Jeffrey J. Ciarlanto
Joseph M. Profy
David M. Promisloff
100 N 22nd Street, Unit 105
Philadelphia, PA 19103
Phone: (215) 259-5156
Fax: (215) 600-2642

Law Office of Alfred G. Yates, Jr., P.C.
Alfred G. Yates, Jr.
Gerald L. Rutledge
519 Allegheny Building
429 Forbes Avenue
Pittsburgh, PA 15219
Phone: (412) 391-5164
Fax: (412) 471-1033

Counsel for Plaintiff

HALYARD HEALTH, INC. VERIFICATION

I, Margaret C. Richardson Trustee of the Survivors Trust Dated 6/12/84 for the benefit of the H&M Richardson Revocable Trust, hereby verify that I am familiar with the allegations in the Complaint, that I have authorized the filing of the Complaint, and that the foregoing is true and correct to the best of my knowledge, information, and belief.

Date: 7-27-16

Margaret C. Richardson
Margaret C. Richardson